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AMERICAN BANKER

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Annuity Sales: Just One Round In a Long Fight

By YVETTE D. KANTROW

NEW YORK — A recent decision by the Office of the Comptroller of the Currency that would allow national banks to sell fixed-rate annuities is an important victory for the banking industry. But it is only one battle in what may prove to be a long and drawn-out war.

Many banks are already devising plans to add fixed-rate annuities – investment contracts that guarantee fixed future payments – to their product lines. By selling annuities for insurance companies, bankers say they can offer their customers a popular tax-deferred investment vehicle and significantly increase their fee income.

ANALYSIS: *Follow-up on the news*

But other bankers are holding off on their efforts, saying there are too many legal, regulatory, and competitive issues that must first be resolved. The Comptroller's decision applied initially to only one bank and is not an official regulation. Other regulations and laws might still prevent national banks from offering annuities.

"There are a lot of legal issues and it gets really complicated," said James Anderson, president of Northern Trust Brokers Inc., a subsidiary of the Northern Trust Corp. in Chicago.

The Comptroller of the Currency said last month that brokering fixed-rate annuities is not an insurance activity but more akin to the sale of a financial instrument such as a certificate of deposit, and therefore permissible.

Bank Gets a Letter

The regulator took that position in a letter to the Goodhue County National Bank in Red Wing, Minn. The $150 million-asset Goodhue said that since Minnesota state-chartered banks were able to sell annuities, national banks had to be able to do the same to stay competitive.

While bankers elsewhere hailed the Goodhue ruling, it does not grant the entire industry permission to jump into the $90 billion fixed-rate annuities market.

"It's nice that we have the [Comptroller's] blessing but we still need the state law to change," said James Daniel, president of Barnett Brokerage Inc., a subsidiary of Barnett Banks Inc., Jacksonville, Fla. Florida is one of 15 states that prohibit bank employees from being licensed to sell insurance. Bankers in these states are hope-

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FINANCE

A SALOMON ANALYST expects some major banks to put their loans to Campeau Corp. on nonaccrual status in the first quarter, contributing to a surge in nonperforming loans for highly leveraged transactions. *Page 22*

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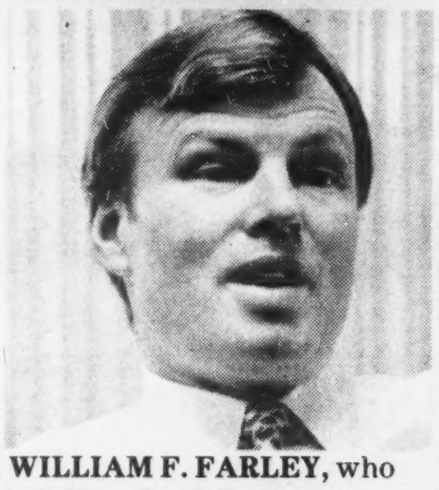

WILLIAM F. FARLEY, who left First Bank System two years ago because of a disagreement with the chief executive over the company's bond portfolio, said he was delighted to be back as vice chairman. *Page 2*

COMMENT

BANKS MUST RETHINK their subpoena compliance procedures to avoid being targeted for investigation and prosecution, writes Laura A. Brevetti. *Page 4*

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THE RTC announced it will sell real estate parcels individually, rather than in bulk. *Page 2*

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LDC Debt Market Facing Oversupply of Latin Paper

By JOHN EVANS

LONDON — Prices of Third World debt, already quoted at substantial discounts, are likely to drop further as banks rush to reduce their holdings because of the impending closing of a major market maker here, traders said Tuesday.

Libra Bank Ltd., the third-largest market maker in LDC debt and a specialist in Latin America, announced late Monday that it would close by the end of this year because the 10 banks that own it have refused to inject new capital to allow the bank to meet tougher Bank of England guidelines on LDC reserves.

"Libra Bank's impending dissolution will cause market makers to liquidate their existing long positions, thereby increasing immediate supply and causing prices to fall," a spokesman for J.P. Morgan & Co. in London, the largest market maker in LDC debt, said. Loss of a major market maker will also impair the liquidity of the market, other traders said.

Discounts Are Large

Major U.S. banks use the so-called secondary market to buy and sell billions of dollars in Third World loans. The loans are sold at large discounts to face value – that is, amounts significantly lower than their principal.

Top Traders Of LDC Debt
1989 volume, in billions of dollars

	Volume
J.P. Morgan	$14.
NMB Bank	13.6
Libra Bank	11.5
Chase Manhattan	9.8
Citibank	8.5
Salomon Brothers	8.5
Bankers Trust*	8.0
Manufacturers Hanover	8.0
Continental Bank	7.5
Standard Chartered	5.3
Chemical Bank	5.0

*Estimated volume
Source: LDC Debt Report

The size of the discount depends on the financial health of the debtor country. Argentine debt, for example, sells at about 10 cents on the dollar, Mexican debt at 40 cents, and Yugoslav debt at about 56 cents.

Once a bank has sold a loan, it can deduct the full amount from its balance sheet, draw down its reserves to cover any loss on the

See **LDC** *page* **14**

Rating Firms, Stung Once, Crack Down In Southeast

By KELLEY HOLLAND

NEW YORK — Having failed to anticipate the severe deterioration in the credit quality of New England banks, the major debt-rating agencies are taking a tougher look at banks in the Southeast and other parts of the country.

The debt ratings of two Southeast regional banks were downgraded last week, and analysts think more downgrades could be in the offing.

"The mood the rating agencies are in, I don't think anybody's safe," said Ann Robinson, a vice president at Donaldson, Lufkin & Jenrette.

Costs Are Increased

Besides being a black eye in the investment community, a ratings reduction increases a bank's funding costs, particularly in jittery markets such as today's, when investors demand significantly higher interest rates on securities of less than sterling quality.

The agencies are focusing on

See **DEBT** *back page*

Bank Cards Looking Overseas for Growth

By YVETTE D. KANTROW

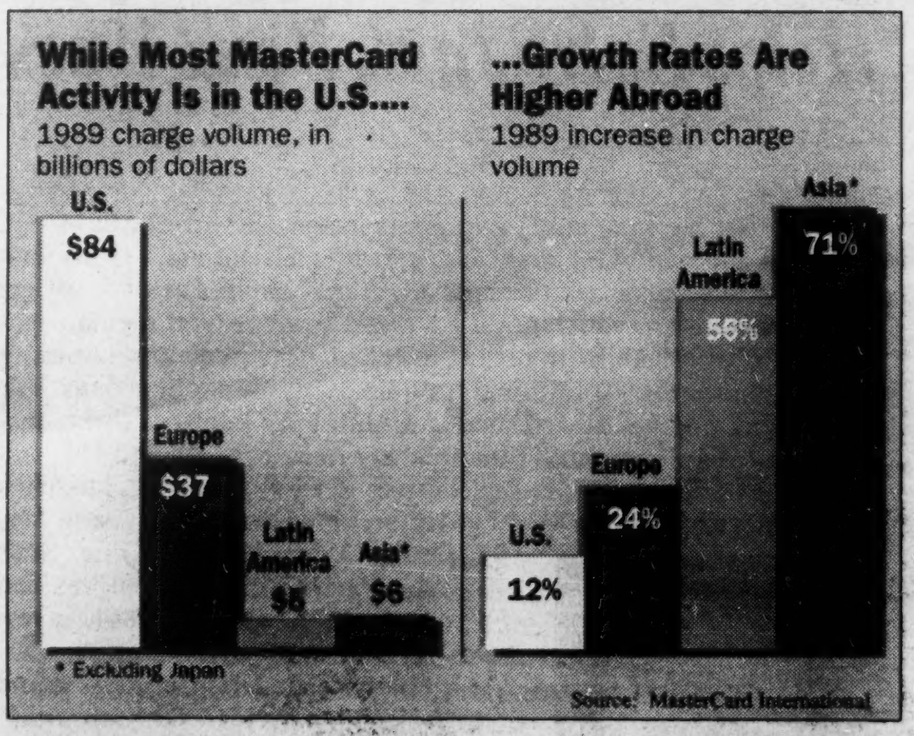
NEW YORK — The changing economies of Eastern Europe, China, and other parts of the world are increasing the resolve of the international bank card associations to look beyond their usual marketplaces.

As growth in the U.S. credit card market slowed in recent years, MasterCard and Visa set their marketing sights on Western Europe, which is still seen as a major growth area. But now their interest in lesser developed, farther-flung corners of the world is on the rise.

The payoff is already becoming evident, based on data from the recently published MasterCard International annual report. While the United States continues to account for most MasterCard activity, U.S. sales volume grew only 12% last year compared with 71% growth in Asia, 56% in Latin America, and 24% in Europe, where the opening of the Communist economies is just beginning.

A Shift to Overseas Operations

"Having won the right to political self-determination, it is only a matter of time until the people of Eastern Europe will also seek the passport to greater economic freedom that the payment card represents," H. Robert Heller, a Visa executive vice president, told credit card executives at a gathering in Florida last week.



Quoting from a recent issue of the *The Nilson Report*, a newsletter published in Los Angeles, Mr. Heller said that in 1995, 61% of the world's charge volume will be generated overseas, compared with 50% today.

Mr. Heller, an international economist who left a seat on the Federal Reserve Board last summer to join Visa, urged his listeners to look for business opportunities in Eastern Europe, Asia, and Latin America.

Restructuring at MasterCard

In addition to signing on new members in countries as diverse as Czechoslovakia, China, and Brazil, both MasterCard and Visa are signaling their interest in new markets with restructurings of their own.

MasterCard last month spun off its regional divisions into

See **BANK CARDS** *page* **8**

COMMENT/ *By Laura A. Brevetti*

Thrift Law Changes Rules On Subpoena Compliance

Dramatic changes in the area of grand jury secrecy law affecting customer notification procedures are a key element of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

Financial institutions receive grand jury subpoenas, issued in connection with a wide variety of criminal investigations, directing the production of bank records or testimony from its personnel. Receipt of the subpoena is often the first and only notice a bank gets that an investigation is afoot involving undisclosed criminal activity, the nature of which the bank has no knowledge.

Yet the thrift-bailout law now imposes on banks a presumption of knowledge or, at the very least, a duty to learn. A bank and its personnel face possible criminal prosecution for disclosing information to customers and others relating to subpoenas issued in connection with any investigation of certain financial crimes. Because of this change in the law, banks need to rethink their subpoena compliance procedures to avoid being targeted for investigation and prosecution.

Ms. Brevetti is with the law firm of Morrison Cohen Singer & Weinstein, New York. She was a federal and state prosecutor for 13 years and chief of the United States Department of Justice Organized Crime Strike Force for the Eastern District of New York.

Prior Law Assured Secrecy

Under prior law, regardless of the nature of the criminal activity under investigation, the general rule of absolute secrecy of grand jury proceedings never prohibited a subpoenaed witness from freely disclosing to anyone, including the target of the investigation; the information or documents produced to the grand jury or, certainly, to reveal in detail the testimony he or she gave before the grand jury.

The Right to Financial Privacy Act of 1978 not only preserved a bank's right to disclose and a customer's right to know, but also mandated that a bank notify a customer of the existence and contents of a subpoena and provide a record of documents produced to the grand jury. A customer could then, if appropriate, challenge the subpoena in court before the bank's production of the documents.

It was not unusual in the past for banks – although contrary to law – to accede to a prosecutor's request to delay customer notification for an unspecified length of time. In 1986, however, Congress mandated that prosecutors seek prior judicial approval of delayed notice based on affidavits stating specifically the compelling investigatory need for a delay of not more than 90 days.

If successful, the prosecutor is required to forward to the bank the order together with the subpoena for records. The order assures a bank that a court has reviewed the prosecutor's request and puts it on clear notice that it may not notify the customer for 90 days or longer upon further order of the court.

A Significant Departure

The new S&L law carves out a significant exception to this notification procedure. It amends the Right to Financial Privacy Act and creates a new federal obstruction of criminal investigations offense.

'Banks need to rethink their subpoena compliance procedures to avoid being targeted for investigation and prosecution.'

Now, under threat of prosecution, a financial institution, its officers, directors, partners, employees, agents, and attorneys are prohibited from disclosing to the customer or other named individuals the existence or contents of a grand jury subpoena or information supplied in response to a subpoena issued in connection with an investigation relating to violations of banking laws or frauds.

It is particularly important that the thrift law does not require prosecutors who issue these subpoenas to obtain and forward to a bank a judicial "no notification" order. Furthermore, neither the rules promulgated by the banking agencies since the law's enactment nor Department of Justice guidelines direct prosecutors to alert a subpoenaed financial institution that the particular subpoena falls within the no-notification category.

To make the matter even more precarious for a bank, if the subpoena was issued in connection with an investigation of crimes other than the enumerated banking laws, absent a judicial order, banks presumably must continue to notify customers or be punished.

Banks Put in a Bind

Congress and the Department of Justice apparently have taken the patently unfair position that the newly enacted statutes give a bank sufficient notice and warning of their prohibition. Consequently, a bank is left to play a dangerous guessing game as to when its personnel must and must not notify its customers or reveal subpoenaed information to anyone other than the grand jurors or government agents. A miscalculation could lead to suspicion, investigation, or even prosecution.

True, the new obstruction law requires the government to prove in a felony case that the disclosure was made with a cor-

See **THRIFT LAW** *page* **13**

GRAPEVINE/ *By Jed Horowitz*

Chemical vs. Rumor Mill. Under a barrage of bad press fueled by analysts' reports about deteriorating real estate assets, Chemical Banking Corp. faced a new struggle last week: quashing rumors that it was being stalked by a Japanese bank. One analyst cited market talk that Sumitomo Bank Ltd. was making a bid, while another said that Mitsui Bank, acting as a white knight, would provide equity.

"Shipley hooted at the rumors," said a Chemical insider, speaking of the bank's chairman, Walter V. Shipley. "Some of us would love it, but he's resisted it. He could probably sell the bank every other week."

A Chemical spokesman denied that any merger or equity discussions are taking place.

* * *

Selling a Mosquito. The former Texas Commerce Bancshares chairman, Ben F. Love, sold all of his Chemical Class B shares recently but says it does not reflect a loss of confidence in the bank. Chemical issued the hybrid security to Texas Commerce shareholders when it acquired their company in May 1987. The Class B shares convert into Chemical common in 1992 and must be redeemed at a premium if Chemical is sold before then.

Mr. Love said the shares were an insignificant part of his Chemical holdings.

"What I had was a little dab, a mosquito in my portfolio," the retired Texas banker said. He noted that he does not like to hold a class of stock unless it is worth "well into the six figures."

Mr. Love said he maintains considerable holdings of Chemical common and Class C preferred. "I have an emotional interest, a working interest, and a financial interest" in Chemical, he said.

Robert D. Rieke, an analyst at Rauscher Pierce Refsnes, said Mr. Love probably took a loss on the shares for tax purposes. Mr. Love sold his remaining 9,000 shares in January at $2.75 a share. Their value at issuance was difficult to determine, Mr. Rieke said, because they were part of a complex package of securities Chemical issued to Texas Commerce shareholders.

* * *

Diners Takes to the Air. Citicorp Diners Club Inc. will unveil a "Corporate Club Reward" program later this month that offers a twist on traditional incentives. Points accumulated with each charge can be applied to 16 different frequent-flier and frequent-guest programs at hotels and on airlines.

"It lets people take points accrued on airline A and redeem them on airline B," said a source within the Chicago-based Citicorp unit. That should please employees whose companies require them to travel on specific airlines, he said.

The traditionally low-key Diners Club plans to market the program aggressively. The push will be part of a broader effort to give the card a higher profile.

"We gave birth to the charge card industry 40 years ago, but we haven't done a good job telling the world about it," the source said.

— **Yvette Kantrow**

* * *

Sugaring the OREOs. Bankers are making progress at securitizing foreclosed real estate, known in regulatory language as "other real-estate owned" assets. The problem to date has been convincing investors that the underwater property will produce enough income to pay interest on the securities.

"The key is getting a creditworthy parent of a bank or thrift that will take the risk" of guaranteeing interest payments, said a partner at a Wall Street law firm that recently completed a private placement of securitized commercial OREO properties for a thrift. The lawyer, who asked for anonymity, said the transaction was evidently the first of its kind.

Banks are particularly eager to shed OREOs, those most costly of assets. The properties produce little income and are expensive to maintain. For example, banks must pay taxes and hire security guards. Sources said the Resolution Trust Corp. also is pursuing the securitization path.

* * *

Wall St. Woos Banks. The new definition of highly leveraged transactions led one investment bank this week to brief its merger and acquisition specialists on ways to persuade banks to continue doing deals. The memo offered suggestions on how investment bankers can convince senior lenders that proposed deals will evade the HLT category, according to a source who requested anonymity.

"The banks are a lot more conservative," the source said. "They're offering less senior, asking for more equity, and turning down a lot. We're trying to convince lenders they won't get into trouble with regulators."

Hesitation over funding highly leveraged transactions was highlighted again last week when NCNB Corp. told analysts that its leveraged portfolio almost tripled from its original estimates under the new regulatory definition. The North Carolina company said its HLTs represented 11.6% of all loans and 134.7% of total equity, mostly because of cable television loans. The company said it is looking to reduce its concentration in the cable sector.

* * *

Delay of Game. Pittsburgh-based Equimark Corp. was granted extra time by the Federal Reserve Board to complete its purchase of National Bancshares Corp. of San Antonio, Tex. The sale was to have closed March 31, but the target bank said it did not begin mailing a flood of information about the exchange offer to stockholders and bondholders until this week. The closing date is now May 23.

"We have a special shareholder meeting scheduled for April 26," said an NBC official. "If we don't get enough votes for approval, this gives us time to go out and get some more." □

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GLOBAL *dispatches...*

Provision for U.S. Loan Puts Pressure on Standard

LONDON — A provision by **Standard Chartered** PLC against its $110 million exposure to a troubled U.S. computer company, **Miniscribe** Corp., will hurt the bank's efforts to strengthen its capital base and boost investor confidence, analysts said.

"This is another blow to Standard as it tries to emerge from its ashes," said Rod Barrett, an executive director at **Goldman Sachs** & Co. "It underlines the difficulty of international banking."

Standard Chartered earlier said it was making an $80 million provision against its exposure to Miniscribe, which filed for protection from creditors under Chapter 11 of the U.S. Bankruptcy Code after discovering a fraud.

Because of the provision, analysts have lowered their pretax profit forecasts to about $385 million, before exceptional charges, from an average of $465 million previously. In 1988 the bank posted earnings of $500 million.

In January, Standard said pretax profit would be below the previous year's level as a result of bad debts in Britain, corporate business problems in Australia, and the suspension of interest payments by Brazil.

Market sources said the bank's exposure to Australia's troubled corporate market was significant and could entail $160 million to $240 million in exposure to entrepreneur Alan Bond alone.

After years of concern about its weak asset base, a highly dispersed international management structure, and exposure to LDC debt, Standard has begun to implement a far-reaching restructuring program over the past year.

This plan included a new management team, the sale of $400 million of assets, and last December's link-up with **Westdeutsche Landesbank Girozentrale**, which enabled Standard to strengthen its capital ratios and raise LDC reserves.

"This comes at a very unfortunate time," said analyst Martin Green at the brokerage of **Smith New Court**. "There had been assurances that the bank's asset quality was improving."

— Reuters

... by country

WEST GERMANY

The Bundesbank said it lifted remaining restrictions on East German assets in West Germany, giving East German citizens full control over the disposition of funds in their private accounts and deposits at West German financial institutions, effective today.

In a statement, the Bundesbank said it was able to lift the restrictions because East Germany now allows its citizens to exercise full control over these accounts.

Previously, East German citizens could withdraw only 5,000 West German marks per person for each visit to West Germany.

— Reuters

EAST GERMANY

The East-West German currency commission favors converting East German savings at a one-for-one rate into West German marks when the two Germanies adopt monetary union, West German Economics Minister Helmut Hausmann said.

"We believe that we can't make the East German people worse off with their savings," he said in an interview.

Mr. Hausman declined to say what amounts were involved or what timing for the conversion was discussed at Tuesday's third meeting of the currency commission in East Berlin.

— Reuters

ARGENTINA

Economy Minister Antonio Erman Gonzalez has accepted the resignation, tendered last week, of Argentine central bank president Enrique Folcini, ministry officials said.

They could not say who would replace Mr. Folcini, the fourth central bank head to quit during the eight-month government of President Carlos Menem.

Mr. Folcini, who assumed the post on Jan. 22, resigned after a disagreement with other government officials when he used central bank funds to help two financially troubled banks.

— Reuters

SINGAPORE

Dresdner Bank AG will shift part of its private banking operations from Hong Kong to Singapore in April, a senior bank official said.

The decision to relocate was made on operational grounds, because it will be more convenient to serve Southeast Asia from Singapore than Hong Kong, he said.

Dresdner Bank operates a restricted bank in Singapore under the same name. The bank also has a merchant bank, Dresdner Southeast Asia.

— Reuters

HONG KONG

State-owned **China International Trust and Investment** Corp. issued 669.164 million covered warrants on **Hong Kong Telecommunications** Ltd. at 19.25 cents each, colead manager **Barclays de Zoete Wedd** said.

Barclays said the indicated premium range will be between 14% and 17%, against the current trading price. Hong Kong Telecommunications shares closed unchanged at $5.35 on Tuesday.

— Reuters

First City Looking to Mexico, Asia

Texas Bank Using Los Angeles Office as Springboard

By JAMES R. KRAUS

NEW YORK — First City Bancorporation of Texas Inc. has opened a Los Angeles representative office to conduct business with Mexico and Asia.

Robert S. Bucklin, senior vice president, has been named manager.

The Los Angeles office, set up last month, will help the bank expand ties with *maquiladoras*, or Mexican border factories, said Donald Van Stone, chairman and chief executive of First City Texas Austin.

"We want to be elsewhere on the border and are looking at some other situations as well," Mr. Van Stone said without elaborating.

First City already does a substantial business out of El Paso, McAllen, Austin, Houston, and San Antonio with Mexican plants along the Texas border.

According to Mr. Van Stone, the bank has some $25 million in outstanding direct loans to the border factories. *Maquiladora* lending is growing by 15% to 20% a year, he estimated.

The loans represent only a small part of First City's business with Mexican manufacturing plants. A far larger amount is lent to the plants indirectly through their U.S. parent companies and to plant managers residing in Texas, he said.

First City will also use its Los Angeles office to attract Asian investors and build business links to the Far East.

First City, a $14.1 billion-asset bank, has overseas offices in London, Hong Kong, Nassau, Singapore, and Tokyo.

The bank has been steadily building its trade finance activities and set up a joint trade and investment corporation with the Chinese government in May 1988.

Negotiations Under Way

In a further move to broaden its reach, First City is negotiating with Banque Arabe et Internationale d'Invetissement, Paris, to acquire the BAII Banking Corp., a New York State Article 12 investment company.

A spokesman for First City denied a report that an agreement has been reached with Banque Arabe. He declined to comment on First City's interest in acquiring the New York State investment company.

State-chartered investment companies, authorized under Article 12 of the New York State Banking Law, have limited banking powers and cannot accept deposits in New York State. □

LDC Debt Market Facing an Oversupply

Continued from *page* **1**

loan, and claim a tax deduction for an equivalent amount against future earnings.

Banks also buy Third World debt in the hope of profiting by selling it at a slightly lower discount than they paid for it. Because the debt is bought at a discount, banks do not have to set aside reserves for their purchases.

Trading volume on the secondary market reached about $40 billion last year, according to estimates by traders at U.S. banks.

Owners to Get Debt

Libra's loan book, totaling $2.4 billion and concentrated in the Latin nations, is to be sold to stockholders in proportion to the size of their stake in the bank. Chase Manhattan Corp. is Libra's biggest shareholder with 23.6% and therefore will have to take back about $500 million in LDC debt, sources said.

In London, a Chase Manhattan spokesman said that the bank has sufficient reserves to cover its share of exposure to Libra's debt. He said the 10 banks that own Libra decided to pull the plug because they had "a variety of different strategic requirements" for LDC debt.

"It was easier to wind up the bank," the Chase spokesman said.

Other owners are National Westminster Bank PLC, Royal Bank of Canada, Swiss Bank Corp., Westdeutsche Landesbank Girozentrale, Mitsubishi Bank Ltd., Bancomer, Banco Itau, Credito Italiano, and Banco Espirito Santo e Comercial de Lisboa.

The closing, involving layoffs of 160 people in Britain, will take place by yearend. All its creditors will be repaid in full, according to executive director Carlos Santistevan.

Volume Topped $11 Billion

Libra posted a turnover in LDC debt transactions last year of $11.5 billion, according to a recent survey by *LDC Debt Report*, an *American Banker* publication. This gave it third ranking among the banks most active in debt trading, after J.P. Morgan & Co., with trading volume of $14 billion, and NMB Bank, with $13.6 billion.

While prices for LDC debt in Europe have so far been only slightly affected by news of Libra's impending closure, other specialist trading firms agreed that that the move threatened the secondary value of Latin American loans.

Trading volume in Latin LDC loans and related activity such as debt-equity swaps is estimated to have totaled $80 billion in 1989, up substantially from $60 billion in 1988.

Activities Have Shifted

Libra was originally established by its owners as a specialist Latin American lending and trade-finance bank. However, its activities contracted sharply after Mexico sparked the continent's debt crisis in 1982 and, in recent years, the bank has largely specialized in debt trading.

Libra recorded a loss of $287 million in 1989 after making loan-loss provisions of $315 million for LDC lending. This brought its total cover to 32%, still well behind the average 50% recommended by the Bank of England in its matrix guidelines for British banks.

Meanwhile, up to five banks, including Manufacturers Hanover Trust Co., are reported to be bidding to recruit Libra's 10-strong debt trading team, regarded as a highly experienced group of personnel, to promote their own LDC debt activities.

James R. Kraus in New York contributed to this article.

Key International Rates*

	Day-to-day money			3-mo. interbank			6-mo. interbank			Discount rate			Prime equivalent		
	3/13	3/12	3/06	3/13	3/12	3/06	3/13	3/12	3/06	3/13	3/12	3/06	3/13	3/12	3/06
United States	8.31	8.31	8.31	8.56	8.50	8.43	8.75	8.68	8.50	7.00	7.00	7.00	10.00	10.00	10.00
Japan	6.75	6.68	6.62	7.62	7.56	7.43	7.81	7.68	7.62	4.25	4.25	4.25	4.87	4.87	4.87
Canada	13.00	13.00	13.25	13.25	13.18	13.25	13.18	13.06	13.00	13.31	13.31	13.41	14.25	14.25	14.25
U.K.	14.93	14.93	14.93	15.37	15.43	15.31	15.56	15.62	15.43	14.45	14.45	14.45	15.00	15.00	15.00
West Germany	8.06	8.00	7.81	8.50	8.43	8.50	8.93	8.87	8.87	6.00	6.00	6.00	10.50	10.50	10.50
Switzerland	9.00	8.87	8.75	9.25	9.12	9.12	9.31	9.25	9.18	6.00	6.00	6.00	11.00	11.00	11.00
France	10.43	10.18	10.25	10.87	10.81	10.81	11.06	11.00	11.00	9.50	9.50	9.50	11.00	11.00	11.00
Italy	12.18	12.00	11.68	12.78	12.75	12.87	13.08	13.18	13.00	13.50	13.50	13.50	14.00	14.00	14.00

Forward Rate Agreements

	U.S. dollars	Sterling	West German marks	Swiss francs	Yen
3 to 6 months	8.75	15.36	9.20	9.18	7.91
6 to 12 months	9.05	15.05	9.47	9.13	7.94
12 to 24 months	9.56	14.21	8.52	8.49	7.75

* Midday quotes in the New York market

Source: Noonan, Astley & Pearce Inc., New York.

DEALS

Salomon Analyst Expects Souring Campeau Loans to Be Reclassified

A number of major banks are expected to put their loans to Campeau Corp. on a nonaccrual basis in the first quarter, contributing to a surge in nonperforming HLT (highly leveraged transaction) loans, according to Thomas Hanley, a banking industry analyst at Salomon Brothers.

Banks also are reporting more HLT debt outstanding as a result of a new federal definition of highly leveraged transactions.

At a few banks, the ratio of nonperforming HLT loans to total HLT debt probably will be at or near double-digit levels at the end of the first quarter, according to a report just released by Mr. Hanley. He was referring only to senior debt on leveraged transactions.

No Campeau Debt on Books

Bankers Trust is already close to the double-digit level. The subsidiary of Bankers Trust New York Corp. has $3.4 billion of senior HLT debt outstanding, and nonperforming HLT loans represent 9.1% of that amount.

A Bankers Trust spokesman comfirmed Mr. Hanley's numbers but said that two transactions account for more than half of its nonperforming HLT loans. He added that the bank has no Campeau debt on its books.

The bank's total portfolio of senior HLT debt consists of 193 loans in 42 different industries, making it "pretty diversified," the Bankers Trust spokesman added.

Still, of the 15 big commercial banks studied by Mr. Hanley, he said Bankers Trust has the highest ratio of nonperforming HLT loans, followed by First Bank System at 6.9%, BankAmerica Corp. at 5.7%, and Citicorp at 5.2%.

In dollar terms, Citicorp has the biggest HLT loan exposure, with $7.9 billion of senior HLT loans outstanding, based on the new definition of HLT's, according to Mr. Hanley.

For the group of 15 banks as a whole, Mr. Hanley said, he would not be surprised to see the ratio of nonperforming HLT loans reach double-digit levels – perhaps even as high as 15% – within the next 18 months. And that assumes the economy remains relatively healthy.

Problem Termed 'Manageable'

If the nation sinks into a recession, "the numbers could be worse," Mr. Hanley said.

He expects loan losses on 10% of the HLT debt placed on nonperforming status, he said. "There, we have a more temperate outlook."

Right now, Mr. Hanley doesn't think the HLT debt situation has the makings of another Third World debt crisis, though it's a "little too early to judge that," he said.

"We think the whole thing is basically manageable at this point," the Salomon Brothers analyst added.

At Bankers Trust, the spokesman said, "It's a business we remain committed to."

— **William Goodwin**

How Big Banks Fare Under New Definition for Risky Loans

Bank	Outstanding loans* (dollars in billions) Old Definition	Outstanding loans* (dollars in billions) New Definition	Nonperforming HLT loans** (dollars in millions)	Percent of HLT loans nonperforming	HLT loans as percent of equity Old	HLT loans as percent of equity New
Citicorp	$6.1	$7.9	$407	5.2%	60.5%	78.4%
Bank of Boston	2.5	5.3	222	4.2	119.2	252.7
Chase Manhattan	4.0	4.5	50	1.1	80.0	90.0
Bank of New York	3.4	4.2	100 E	2.4	124.7	151.2
Wells Fargo & Co.	2.9	4.2	150	3.6	101.4	146.8
Security Pacific	2.6	4.1	49	1.2	56.1	88.4
NCNB Corp.	1.5	4.0	33	0.8	49.5	134.7
Chemical Bank	2.9	3.5	66	1.9	78.3	94.5
Bankers Trust NY	3.4E	3.4E	310 E	9.1	142.5	142.5
Manufacturers Hanover	NA	3.0	47	1.6	NA	89.6

*Financing highly leveraged transactions **Under new definition E=estimated

Source: Salomon Brothers

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Rhone-Poulenc Expected To Choose Four Lenders

Four banks are expected to win a mandate this week to provide Rhone-Poulenc S.A., the French state-controlled chemicals and pharmaceuticals giant, with the $1.6 billion in financing it needs to complete its planned $3.15 billion merger with U.S.-based Rorer Group.

The banks committed to providing the financing are Societe Generale, Barclays Bank PLC, Chase Manhattan Bank, and the Royal Bank of Canada. Officials at the four banks declined to comment except to say that they expected to be given the mandate Tuesday night. It could not be determined exactly how much each bank had committed to the $1.6 billion facility, but it was not divided equally.

The details for the syndication of the loan will be ironed out this week, and officials involved estimated the deal could be in the market within a week.

While the bank debts of some chemicals companies have received a spotty reception among investors because of their cyclical nature, this transaction is not expected to be viewed in the same light.

"It's a long way from being a highly leveraged transaction in style, and it's a reasonably well-diversified company," one bank official said. "This is no small company."

For instance, in the first nine months of last year, Rhone-Poulenc had over $9.3 billion in consolidated sales.

The merger creates a new company to be called Rhone-Poulenc Rorer Inc. Sources familiar with the deal said that since Rhone-Poulenc would be guarantor, it would carry the debt as a contingent risk on its books.

Under the structure of the deal, Rorer shareholders would receive $78 a share in cash for half of their holdings, and stock rights and equity in the new company for the other half. Both companies have valued the package at $73 a share. The tender offer for cash, which would give Rhone-Poulenc 50.1% of Rorer's shares, begins this Friday. After the deal is completed, Rhone-Poulenc will own 68% of the new company.

— **Caren Chesler-Marsh**

* * *

Hanover Reports 24% Dip In Loan Syndication Fees

Manufacturers Hanover Corp. said loan syndication fees dropped 24% last year, to $112 million from $147 million in 1988, reflecting a decline in the volume and size of leveraged buyout deals.

The bank attributed the slowdown in LBO activity to its "continuing stringent credit criteria for these types of transactions."

Fees for highly leveraged transaction loans totaled $117 million in 1989, the bank also said in its 1989 annual report.

At yearend 1989, Manufacturers Hanover's total HLT loan portfolio stood at $3 billion, representing 6% of total loans and 5% of total assets, the bank said.

HLT loans on nonaccrual status at Dec. 31, 1989, totaled $47 million, Manufacturers Hanover said.

— **William Goodwin**

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